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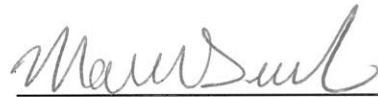
**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

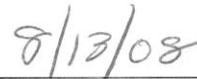
**Independent Accountants' Report on the
Application of Agreed-Upon Procedures on Indirect Cost Rates
Proposed by
The Graduate School, USDA**

Report Number AUD/CG-08-34, August 2008

Leonard G. Birnbaum, LLP, Certified Public Accountants, performed the agreed-upon procedures under Department of State, Office of Inspector General, Contract No. S-AQM-PD-04-D-0033, and by acceptance, the report becomes a product of the Inspector General.



Mark W. Duda
Assistant Inspector General
Office of Audits



Date

Important Notice

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Summary

At the request of the Department of State, Office of Inspector General (OIG), Leonard G. Birnbaum, LLP, Certified Public Accountants, performed certain agreed-upon procedures to determine whether the proposed indirect cost rates of The Graduate School, USDA, for the years ended June 30, 2007, 2006, and 2005, complied with applicable regulations.

We found the School's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of Chapter 4, Volume 1, of *Principles of Federal Appropriations Law*, Third Edition.

Our review disclosed that the School properly calculated its indirect cost rates for 2006 but did not always properly calculate its indirect cost rates for 2007 and 2005. For example, facility rental costs of \$5.6 million and product design costs of \$2.8 million were omitted from the calculation in 2007 and 2005, respectively. The School's proposed rates and our recommended rates are shown in Table 1.

We recommend that the Department accept and finalize the indirect cost rates for 2007, 2006, and 2005, as recommended in this report.

Background

The School was formed by the U.S. Department of Agriculture as a nonappropriated fund instrumentality to provide adult continuing education.

The cost principles for the allocation of indirect costs to grants awarded by federal agencies are specified in Office of Management and Budget (OMB) Circulars A-21, *Cost Principles for Educational Institutions*; A-87, *Cost Principles for State, Local, and Indian Tribal Governments*; and A-122, codified at 2 CFR Part 230, *Cost Principles for Non-Profit Organizations*.

While the School, as a federal entity, is not subject to the provisions of the OMB circulars, the Department uses them to administer its awards to the School.

Indirect costs are defined as costs that have been incurred for common or joint objectives and that cannot be readily identified with a particular final cost objective. The circulars authorize provisional indirect cost rates, applicable to specific periods, which are used for interim reimbursement, and reporting indirect costs on grants, pending the establishment of final rates.

The Department's Grants Policy Directive 22, issued by the Bureau of Administration (A), Office of the Procurement Executive, assigns responsibility for negotiating indirect cost rates with the Department's grantees to A's Office of Logistics Management, Office of Acquisitions Management, International Programs Division.

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In addition, the Department and the School agreed upon a mandatory 2 percent administrative rate on participant support costs instead of the full general and administrative rate.

Purpose, Scope, and Methodology

Our primary purpose was to determine whether the School's indirect cost structures for 2007, 2006, and 2005 complied with applicable regulations. In agreement with OIG, we performed the procedures identified below.

We performed this agreed-upon procedures engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. The procedures performed are summarized as follows:

- Verified that the indirect cost rates proposed were mathematically accurate and supported by accounting records and audited financial statements.
- Assessed the allowability and allocability of indirect costs by testing selected transactions to supporting documentation and inquiring about the nature and functions of entities included in the indirect pools.
- Assessed the causal and beneficial relationship between indirect costs and cost activities.
- Reviewed the School's accounting records to determine whether any income recorded therein is appropriate for credit to the indirect cost pool.
- Made inquiries about the School's operations and assessed the impact of changes on the indirect rate structure.

Results

We found the School's accounting system to be adequate for accumulating and reporting indirect costs allowable under the provisions of Chapter 4, Volume 1, of *Principles of Federal Appropriation Law*, Third Edition. Our review disclosed errors in the School's calculation of its general and administrative rate for 2005 and 2007. For example, facility rental costs of \$5.6 million and product design costs of \$2.8 million were omitted from the calculation in 2007 and 2005, respectively. Otherwise, the School properly calculated its indirect cost rates. The errors appear to be the result of clerical oversight that can be avoided in the future by an independent verification of the accuracy of the calculations. Our recommended rates reflect correction of these errors. In addition, we recommend that the School review its computation of rates to ensure that costs that should be included in the calculation are properly included.

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Table 1: The School's Proposed and Our Recommended Rates

[illegible]

Attachments A through C of this report present the supporting calculations for the indirect cost rates identified in Table 1.

Recommendation 1: We recommend that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, International Programs Division, accept and finalize the indirect cost rates for 2007, 2006, and 2005, as recommended by this report.

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**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES**

U.S. Department of State
Office of Inspector General
Office of Audits
1700 North Moore Street
Arlington, VA 22209

Leonard G. Birnbaum, LLP has applied certain agreed-upon procedures (the Procedures), as summarized in the Purpose, Scope, and Methodology section of this report, relative to the Graduate School, USDA (the School's) proposed indirect cost rates for the years ended June 30, 2007, 2006, and 2005 at the request of the U.S. Department of State, Office of Inspector General.

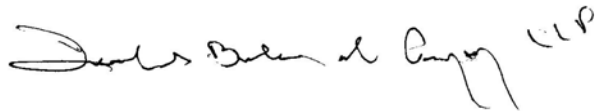
The Procedures, which were agreed to by the Office of Inspector General, were performed to determine whether the indirect cost rate structure of the School complied with the provisions of Chapter 4, Volume 1, of Principles of Federal Appropriation Law, Third Edition..

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the Procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the Procedures, either for the purpose for which this report has been requested, or for any other purpose.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the adequacy and compliance of the reviewed cost or pricing data. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the U.S. Department of State, Office of Inspector General, and should not be used by those who have not agreed to the procedures, and taken responsibility for the sufficiency of the procedures for their purposes. This report relates only to the indirect cost rates specified above.

Alexandria, VA
May 30, 2008

A handwritten signature in black ink, appearing to read "Leonard G. Birnbaum, LLP", with a stylized flourish at the end.

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Attachment A

The Graduate School, USDA

Schedule of Proposed and Recommended Rates for the Year Ended June 30, 2007

	Amount
General and Administrative	(b) (4)(b) (4)(b) (4)(b) (4)
Program Costs	(b) (4)(b) (4)(b) (4)(b) (4)
Overhead	(b) (4)(b) (4)(b) (4)(b) (4)
International Labor and Fringe	(b) (4)(b) (4)(b) (4)(b) (4)
Full-time Fringe	(b) (4)(b) (4)(b) (4)(b) (4)
Contract Fringe	(b) (4)(b) (4)(b) (4)(b) (4)
Part-time Fringe	(b) (4)(b) (4)(b) (4)(b) (4)
Full-time Labor	(b) (4)(b) (4)(b) (4)(b) (4)
Contract Labor	(b) (4)(b) (4)(b) (4)(b) (4)
Part-time Labor	(b) (4)(b) (4)(b) (4)(b) (4)
2%	(b) (4)(b) (4)(b) (4)(b) (4)
Participant Costs	(b) (4)(b) (4)(b) (4)(b) (4)
	(b) (4)(b) (4)(b) (4)(b) (4)
	(b) (4)(b) (4)(b) (4)(b) (4)
<u>Program Rates</u>	(b) (4)(b) (4)(b) (4)(b) (4)
General and Administrative (A/B)	(b) (4)(b) (4)(b) (4)(b) (4)
Overhead (C/D)	(b) (4)(b) (4)(b) (4)(b) (4)
Fringe Full-time (E/H)	(b) (4)(b) (4)(b) (4)(b) (4)
Fringe Contract (F/I)	(b) (4)(b) (4)(b) (4)(b) (4)
Fringe Part-time (G/J)	(b) (4)(b) (4)(b) (4)(b) (4)
Administrative (K/L)	(b) (4)(b) (4)(b) (4)(b) (4)

The Graduate School, USDA

**Schedule of Proposed and Recommended Rates
for the Year Ended June 30, 2006**

	<u>Amount</u>					
General and Administrative	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Program Costs	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Overhead	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
International Labor and Fringe	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Full-time Fringe	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Contract Fringe	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Part-time Fringe	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Full-time Labor	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Contract Labor	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Part-time Labor	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
2%	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Participant Costs	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
<u>Program Rates</u>	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
General and Administrative (A/B)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Overhead (C/D)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Fringe Full-time (E/H)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Fringe Contract (F/I)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Fringe Part-time (G/J)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Administrative (K/L)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)	(b) (4)

The Graduate School, USDA

**Schedule of Proposed and Recommended Rates
for the Year Ended June 30, 2005**

	<u>Amount</u>			
General and Administrative	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Program Costs	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Overhead	(b) (4)	(b) (4)	(b) (4)	(b) (4)
International Labor and Fringe	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Full-time Fringe	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Part-time Fringe	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Full-time Labor	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Part-time Labor	(b) (4)	(b) (4)	(b) (4)	(b) (4)
2%	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Participant Costs	(b) (4)	(b) (4)	(b) (4)	(b) (4)
<u>Program Rates</u>	(b) (4)	(b) (4)	(b) (4)	(b) (4)
General and Administrative (A/B)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Overhead (C/D)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Fringe Full-time (E/H)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Fringe Part-time (G/J)	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Administrative (K/L)	(b) (4)	(b) (4)	(b) (4)	(b) (4)